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Article Last Updated: 08/05/2004 12:25:00 AM

Oil prices climbing

Market tight; some analysts say \$50 a barrel is possible by winter

By Brad Foss
The Associated Press

WASHINGTON - Oil prices could rise as high as \$50 per barrel before the year is up, analysts say, as the world's growing thirst for crude stretches supplies thin and uncertainty abounds in petroleum-producing nations.

"The fundamental fact is that oil is tight," says Leo Drollas, chief economist for the London-based Center for Global Energy Studies. Drollas believes \$40 is a more likely price in the next month or two, although if demand is strong and the weather is cold this winter, prices could reach \$50.

Prices might leap even higher if there were a major supply disruption, analysts said.

Even at \$50 per barrel, prices would be about 12 percent less expensive than they were leading up to the first Gulf War, and more than 40 percent below the levels reached during the oil crisis of the early 1980s, when inflation is taken into account.

Of course, current high prices could begin to sap demand for gasoline and weaken the broader economy - both of which would cool today's red-hot oil markets.

And while a terrorist attack in the United States would cause a brief run-up in the cost of oil, analysts said that would likely be followed by a longer-term decline in prices because of the negative impact such an event would have on the economy.

On Wednesday, oil futures retreated from record-highs set the day before as concerns about Russian supplies abated and government data showed U.S.

gasoline supplies rising.

That still left oil for September delivery at \$42.83 per barrel, or about 35 percent higher than a

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year ago.

The main reason for soaring prices nowadays is that global demand has risen faster than producers had expected, leaving the market with very little cushion in the event of an unexpected supply problem, terror-related or otherwise.

PFC Energy, a Washington-based consulting firm, estimates

that total global production will average 82.1 million barrels a day in 2004, or just 100,000 barrels a day above consumption.

"OPEC is putting out a lot of oil, but the market is absorbing it," said Jamal Qureshi, an oil market analyst at PFC Energy.

On Tuesday, U.S. light crude for September delivery soared to a closing price of \$44.15 - an all-time high on the New York Mercantile Exchange.

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